



Report of the Directors

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities comprise the following:

- (i) the design, manufacture and sale of optical product; and
- (ii) the manufacture and sale of phosphoric products.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 33 to 84. The directors do not recommend the payment of any dividend in respect of the year under review.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for the last five financial reporting years and of its assets, liabilities and minority interests at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group, is set out below.

	Year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
RESULTS TURNOVER	235,201	146,983	174,890	192,236	242,097
(LOSS)/PROFIT BEFORE TAXATION	(14,034)	38,717	(7,582)	(8,401)	10,763
Taxation	(476)	–	–	(151)	(1,000)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	(14,510)	38,717	(7,582)	(8,552)	9,763
Minority interests	8,878	7,221	2,323	1,498	378
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	(5,632)	45,938	(5,259)	(7,054)	10,141

Assets, liabilities and minority interests	Year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
TOTAL ASSETS	228,025	225,773	240,512	253,563	266,617
TOTAL LIABILITIES	236,809	211,099	263,009	265,928	310,627
MINORITY INTERESTS	(16,866)	36,561	44,582	47,670	45,932
	8,082	(21,887)	(67,079)	(60,035)	(89,942)

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 18 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 32 and 33 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in shareholders' equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no retained profits available for cash distribution and/or distribution in specie. In addition, the Company's share premium account, in the amount of HK\$723,462,000, is governed by Section 48B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 59.54% of the total sales for the year and sales to the largest customer included therein amounted to 19.23% of the total sales. Purchases from the Group's five largest suppliers accounted for approximately 61.13% of the total purchases for the year and purchases from the largest supplier included therein amounted to 44.87% of the total purchases.

Apart from Mr. Wang An Kang ("Mr. Wang"), a director and substantial shareholder of the Company, who has interests in one of the five largest customers and three of the five largest suppliers and Mr. Zhao Jun ("Mr. Zhao"), a director of the Company, who has interests in one of the five largest customers and five largest suppliers respectively, as far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

The independent non-executive directors represented that the transactions between the Group and the companies, of which Mr. Wang An Kang has interest in, were carried out on normal commercial terms

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Zhao Jun (Chairman)
Li Wei (C.E.O.)
Wang An Kang
Zhou Jing

Independent non-executive directors:

Wu Bin
Tam King Ching, Kenny
Choi Tze Kit, Sammy

In accordance with the specific director service contracts and article 103(A) of the Company's articles of association, all the independent non-executive directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 12 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Zhao Jun, Li Wei, Wang An Kang and Ms. Zhou Jing, being the executive Directors, has entered into a service contract with the Company for a term of three years commencing on 5 July 2005, terminable by not less than three months' notice by either party. Each of these contracts is subject to rotation and re-election in accordance with the memorandum and articles of association of the Company.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Except for Mr. Wang, no other director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

The contracts of significance to the business of the Group during the year of which Mr. Wang has material interest were:–

1. Two leasing agreements which an indirect wholly-owned subsidiary of the Company leased certain premises in Guangxi and the Yunnan Provinces respectively from companies controlled by Mr. Wang to carry on its businesses. Such premises included production factories and their ancillary structures, and ancillary equipment and machinery in these two locations.
2. An agency agreement by which the same subsidiary engaged a company controlled by Mr. Wang to act as its selling agent for its products.
3. A raw materials purchase agreement enabling the same subsidiary to purchase raw materials for its production from a company (or the associate(s) of this company) controlled by Mr. Wang.
4. A distribution agreement by which the same subsidiary engaged a company controlled by Mr. Wang to act as its distributor for its products.
5. An agency agreement by which a trading company controlled by Mr. Wang engaged an indirect wholly owned subsidiary of the Company to act as its selling agent for its merchandise.

Further details of these contracts are disclosed in the Company's circular dated 2 June 2006.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

1. Interests in the Company

One of the directors who held office at 31 December 2006 had the following interests in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Name of director	Nature of interest	Number of shares	Approximate Percentage
Mr. Wang	Corporate	1,878,799,680	60.12

Save as disclosed above, as at the date hereof, none of the Directors and chief executive of the Company was interested, or deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. Particulars of the share option scheme of the Company are disclosed in note 33 to the financial statements. As at 31 December 2006, the Company has no share options outstanding to any directors of the Company.

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

(a) Interest in Shares of the Company

At 31 December 2006, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
China Time Investment Holdings Limited	1,878,799,680 (note 1)	60.12
Mr. Wang An Kang ("Mr. Wang")	1,878,799,680 (note 1)	60.12
Ms. Mu Yucun	1,875,079,680 (note 2)	60.12
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 3)	6.04
Kwan Wing Kum, Janice ("Ms. Kwan")	188,702,795 (note 3)	6.04
Lam William Ka Chung ("Mr. Lam")	188,702,795 (note 3)	6.04
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 3)	6.04
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 3)	6.04
Innovation Assets Limited ("Innovation")	188,702,795 (note 3)	6.04
World Developments Limited ("World Developments")	188,702,795 (note 3)	6.04
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 3)	6.04
Festival Developments Limited ("Festival Developments")	188,702,795 (note 3)	6.04

Notes:

- Mr. Wang is the sole shareholder of China Time Investment Holdings Limited.
- Ms. Mu Yucun is Mr. Wang's spouse and she is deemed to be interested in Mr. Wang's interest in the Shares.
- Mr. Choi and his spouse Ms. Kwan were deemed to be interested in 188,702,795 ordinary shares in the Company (including the 32,500,000 pledged shares) by virtue of their 46% shareholding in Kingsway International. Mr. Lam and his spouse Mrs. Lam were deemed to be interested in 188,702,795 ordinary shares in the Company by virtue of their 40% shareholding in Kingsway International. Kingsway International, in turn, held 100% shareholding in Innovation. Innovation, in turn, held 100% shareholding in World Developments. World Developments, in turn, held 74% shareholding in SW Kingsway. SW Kingsway, in turn, held 100% direct shareholdings in each of Festival Developments.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (cont'd)

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions on the shares or underlying shares, or has any rights to subscribe for shares in respect of such capital.

(b) Substantial shareholders of other members of the Group

As at the date hereof, so far as is known to the directors of the Company, the following are parties, other than a director of the Company, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in general meetings of any other member of the Group.

Name of Subsidiary	Name of Substantial Shareholders	Percentage of existing share capital
Profitown Investment Corporation	Probest Holdings Inc	30%
Global Origin Limited	All-Success International Limited	10%
Profit Trend International Limited	Wischance Investments Limited	50%
Shenzhen Henggang Swank Optica Industrial Co. Ltd.	Henggang Zheng Stock Investment Co. Ltd	19%

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS

During the year, the following continuing connected transactions have been entered into by the Group. These transactions have been fully approved by the Board and the shareholders of the Company in extraordinary meetings held previously in accordance with Chapter 14A of the Listing Rules.

- a. An agency agreement commencing on 3 June 2005 by which a wholly owned subsidiary of the Company is engaged by a connected person to act as its trading agent for some trading business. During the year, a total of approximately HK\$1,697,000 of commission income was recorded.
- b. An agency agreement commencing on 19 June 2006 by which an indirect wholly subsidiary of the Company engages a connected person to act as its sales agent for its products. During the year, a total of approximately US\$270,000 (HK\$2,068,449) of commission expenses was recorded.
- c. A leasing agreement which the same subsidiary of the Company leases certain premises in Guangxi from a connected party to carry on its manufacturing business. Such premises included production factory together with its ancillary structures, and ancillary equipment and machinery in this location. The lease commenced on 27 June 2006 with an annual rental of RMB2.5 million.
- d. A leasing agreement which the same subsidiary of the Company leases certain premises in Yunnan from a connected party to carry on its manufacturing business. Such premises included production factory together with its ancillary structures and ancillary equipment and machinery in this location. The lease commenced on 31 December 2006 with an annual rental of RMB20.0 million.
- e. A distribution agreement by which the same subsidiary engaged a connected person to act as its distributor for its products. During the year, total sales to this connected person of approximately RMB46,651,000 (HK\$45,222,000) was recorded.
- f. A raw material purchase agreement by which the same subsidiary purchases from a connected person (or its associate(s)) raw materials for its production. During the year, total purchases of approximately RMB96,209,000 (HK\$ 93,262,000) was recorded.
- g. A loan restructuring agreement commenced on 3 June 2005 by which a loan and a promissory note were due to a connected person. Interest rate was 1% over Hong Kong prime rate. During the year, total interest expenses incurred were approximately HK\$ 13,867,000.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS (cont'd)

The independent non-executive Directors have reviewed these transactions and confirmed that these transactions have been entered to:

- (i) in the ordinary course and usual course of business of the Group;
- (ii) either on normal commercial terms, or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company.

The Directors confirm that the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices ("the Code") during the year ended 31 December 2006.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report".

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Directors, all of the Directors have complied with, for any part of the accounting period covered by this Annual Report, the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Report of the Directors

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NONEXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

PUBLIC FLOAT

As at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed both the interim results for the period of six months ended 30 June 2006 and the final results for the year ended 31 December 2006.

REMUNERATION COMMITTEE

The Company has a Remuneration Committee which was established in accordance with the requirements of the Code, for the purposes of considering and making recommendations to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive directors and senior management



Report of the Directors

AUDITORS

CCIF CPA Limited retire and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Wei

C.E.O.

Hong Kong, 26 April 2007